

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 LILONGWE 000503

SIPDIS

SENSITIVE

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [MI](#)

SUBJECT: IMF: TEAM LOOKS FOR FRESH START

#### Summary

1. (SBU) Visiting IMF officials told donors that poor fiscal and monetary performance had caused the Fund's Executive Board not to consider Malawi's case in April. Given the country's poor performance, the current facility (which was to have run through December) has been abandoned. Having lost confidence in the GOM's ability to perform, IMF officials returned to Malawi not to negotiate but to explore alternative ways forward with the new government. One possibility would be a fast-tracked informal program designed to give Malawi the chance to rapidly demonstrate commitment to targets and to create a positive track record of performance. We support giving the new government the opportunity to prove itself, because Malawi ultimately requires both fiscal discipline and external aid to address its poverty. End summary.

#### IMF Team Back in Lilongwe

2. (U) IMF Mission Chief for Malawi John Green and Africa Department Senior Advisor Michael Nowak visited Malawi (on slightly different schedules) between June 1 and June 5. Green met with the Charge, AID Director, and Econoff on June 1, and Nowak and Green briefed donors on their visit on June 3. Nowak and Green met President Mutharika on June 4.

3. (SBU) In line with what the IMF has been saying in Washington, Nowak and Green described the Fund's experience with Malawi as "uneven," with a poor track record by international standards. They stated that the Fund's reputation and credibility had been undermined by events in Malawi and that Fund management's "time and patience were running out." The goal of their visit, said Nowak, was not to negotiate on the current program, but to "explore ways forward."

4. (SBU) Nowak suggested that a short-duration informal program (staff-monitored from Washington) to establish a track record would be one possible option. Such a program would be built around two pillars: 1) a set of required fiscal policy actions; and 2) quantitative targets on key macroeconomic indicators. Noting that a "lack of commitment and intent at the highest levels," as well as some capacity restraints, had characterized Malawi's program under former President Muluzi, Nowak offered that a new program could come with some technical assistance, but he kept the need for Malawi to demonstrate performance as a key theme.

5. (SBU) In response to questions from some skeptical donors, Green elaborated on the reasons the IMF did not go forward with an Executive Board meeting about Malawi in April. Green stated that the GOM overspent significantly in March and April, and that it had engaged in some dodgy financing as well. Nowak said he was confident the Fund had made the right decision by not going forward. An IMF staffer added that the overspending had been significant enough that GOM domestic debt has increased by approximately 5.7 billion kwacha (c. 52 million USD) since March.

6. (SBU) The election of President Mutharika on May 20 created the opportunity for a new beginning, stated Nowak, but Malawi needs to convince the Board and the Fund staff that it can meet realistic and agreed-upon targets. If Malawi can do so, Nowak outlined a best-case scenario in which the Fund could perhaps begin disbursements as early as October through a staff-monitored program.

7. (SBU) Several donors expressed their short-term concerns about the state of Malawi's economy between now and the time Fund disbursements could take place, and there was some discussion of the feasibility of donors de-linking their direct budgetary support programs from the IMF and disbursing now.

8. (SBU) Similarly, others wanted to know if a Letter of Assessment from the Fund would be sufficiently strong to enable the World Bank to go forward with its Structural Adjustment Credit before the Fund itself makes disbursements. The Fund, Nowak stressed, has to provide honest assessments of a country's performance, despite what implications those assessments may have. Expressing some discomfort with the way other donors piggy-back on the Fund,

Nowak pointed out that "we are not a credit rating agency."

Comment

-----

19. (SBU) The IMF has had a rough ride with Malawi over the past year, but we think they have struck the right balance with the current approach. Malawi needs aid, and Mutharika's government represents a new chance to get the IMF program on track without compromising the program's integrity. Given Malawi's poor past performance, however, disbursements cannot follow mere promises. Whatever program form it takes, we (along with other donors) would like to see the Mutharika government be given a chance to quickly show its commitment (or lack thereof) to reform and to fiscal discipline, because aid, and growth, will only be able to follow where the government's performance leads.

DOUGHERTY